A Resolution

Weekender

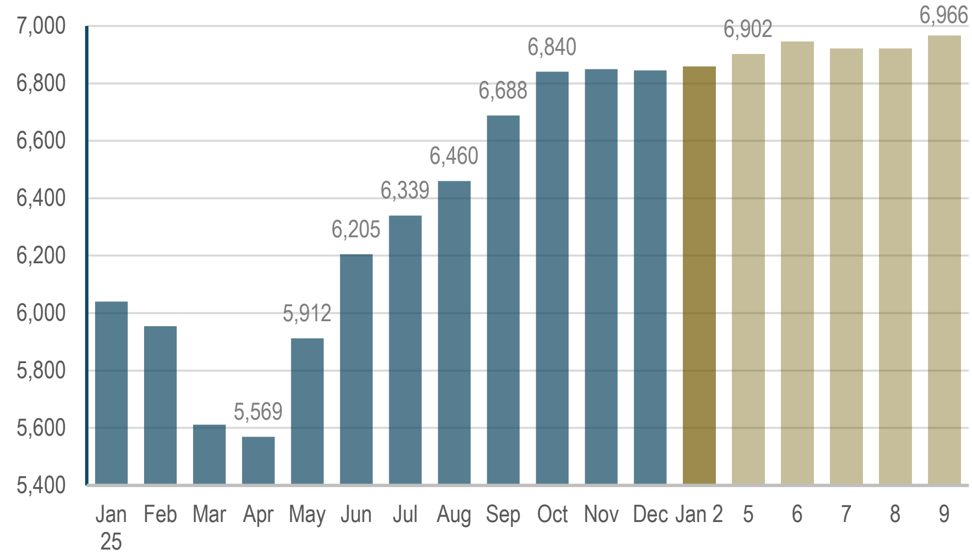
January 10, 2026

Go ghost for six months.
Take full responsibility.
Find the beast within you.
Throw yourself into the pain.
Cut out every excuse.
Go all in on yourself.
Train like a warrior.
Work like a robot.
Eat like a king.
Reject vices.
Transform.
Upgrade.
Create.
Thrive.
Win.
Not Sure

Good morning, and welcome to the *Weekender* for Saturday, January 10, 2026. In this *Weekender,* we will summarize market insights and discuss labor markets, interest rates, and recent geopolitical developments, including our expectations for the coming year. For the first whole week of the new year, equity markets, as measured by the S&P 500, were higher by 1.6%. To a significant degree, markets are flying blind. Lack of government-produced economic data leaves markets predicting 2026's future based on September 2025 data.

S&P 500 Index Levels

(Source: Bloomberg)



Be sure to consult a qualified financial advisor before making financial decisions.

Market Commentary

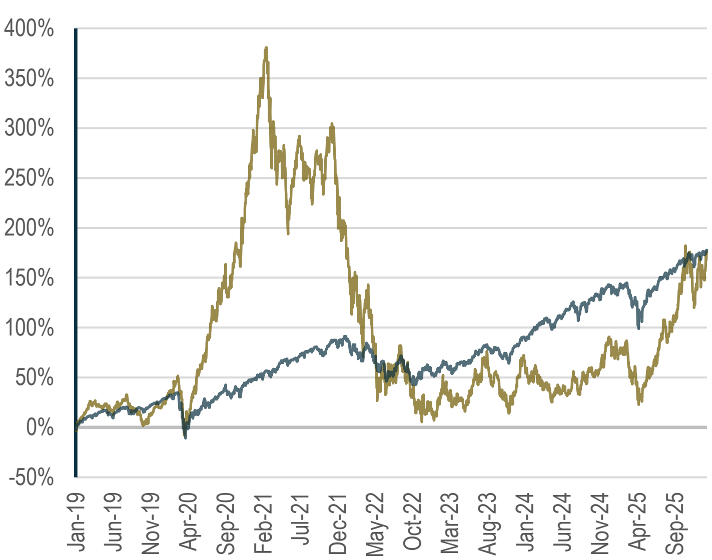
A primary role of financial markets is price discovery. To set prices based on the discounted value of the future. A future that is unknown and uncertain. During the first week of the year, financial markets are projecting another year of above-average gains. In a scarce environment, every sell-side market strategist is expecting another year of equity market gains. Average expectations call for the S&P 500 index to rise by 11.0% over the year.

Positive expectations are based upon expectations of: 1. Moderate but positive economic growth; 2. Inflation settling close to the Federal Reserve's 2.0% target by the end of the year; 3. Interest rates that fall by 0.75% in three moves over the next six months; 4. Continued organizational efficiency gains driven mainly through artificial intelligence; 5. Resilient labor markets where job gains pick up, and layoffs of any significant degree are pushed off; and 6. Corporate profits grow by approximately 12.0%. Fulfillment of all of these expectations is undoubtedly possible, and financial markets, which sit at peak valuation levels on every commonly accepted measure, are entirely pricing in such an outcome. But if anything goes wrong, outcomes will diverge significantly from expectations, and markets will respond negatively.

S&P 500 (Blue) vs Money Losing (Gold)

January 2, 2019 - January 9, 2026

(Source: Bloomberg)



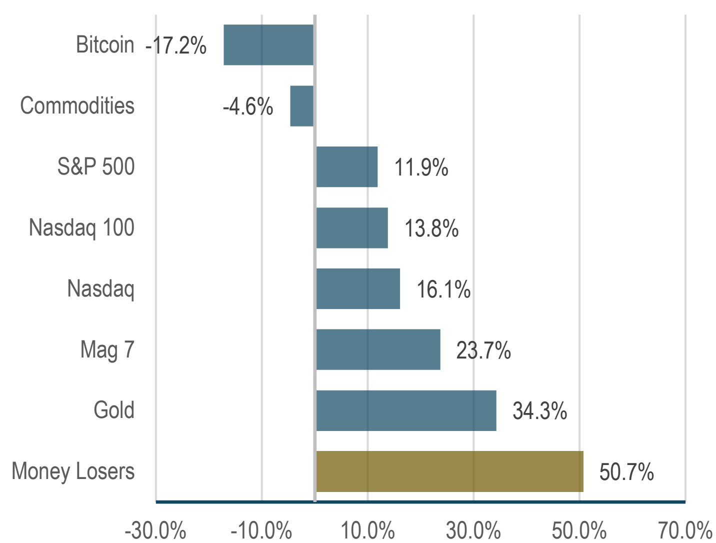
Beginning in July 2025, equity markets shifted away from fundamentals and toward risk-taking, leading to an acceleration in the number of stocks reporting losses relative to the broader S&P 500 index.

Returns when measured from the beginning of July 2025 to last Friday show a shift in risk trading from cryptocurrencies to money-losing companies and gold. Such risk-taking behavior is consistent with financial markets flirting with the tops. While we are fully invested, we remain positioned in equities that we believe will be less susceptible to changes in animal spirits.

Returns from July 1, 2025

July 1, 2025 - January 9, 2026

(Source: Bloomberg)



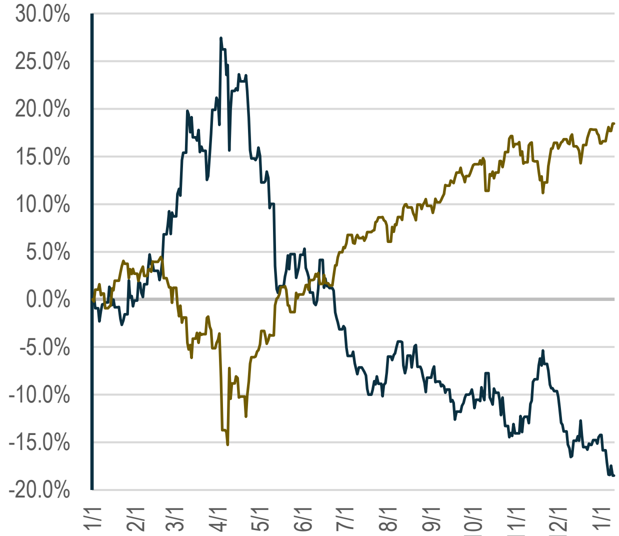
Stagflation, an economic environment where economic growth slows and inflation remains relatively high, was a foregone conclusion when tariffs were announced and implemented in the first half of last year. Still, it is now more than a distant memory.

Markets are trading the eventuality of stagflation as close to impossible. We expect inflation to settle closer to the Federal Reserve's target by the end of the year, although the path may be bumpy. Economic growth requires consumers to remain resilient amid economic softness.

Stagflation Index (Blue) vs S&P 500 (Gold)

January 2, 2025 - January 9, 2026

(Source: Bloomberg)



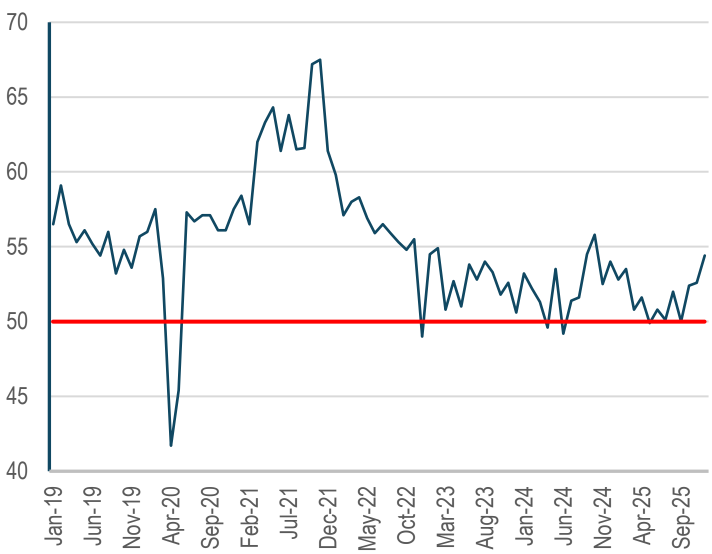
Service Strength Continues Unabated

The US economy can be separated into manufacturing and services. Manufacturing, despite onshoring and supply chain realignment, continues to contract while service growth accelerates. Since services account for 72.5% of the US economy, it is the tail that wags the dog. Purchasing Managers Index (PMI) data show that the US service sector is expanding, hiring, and raising prices.

US PMI Services Index

January 2019 - December 2025

(Source: Bloomberg)



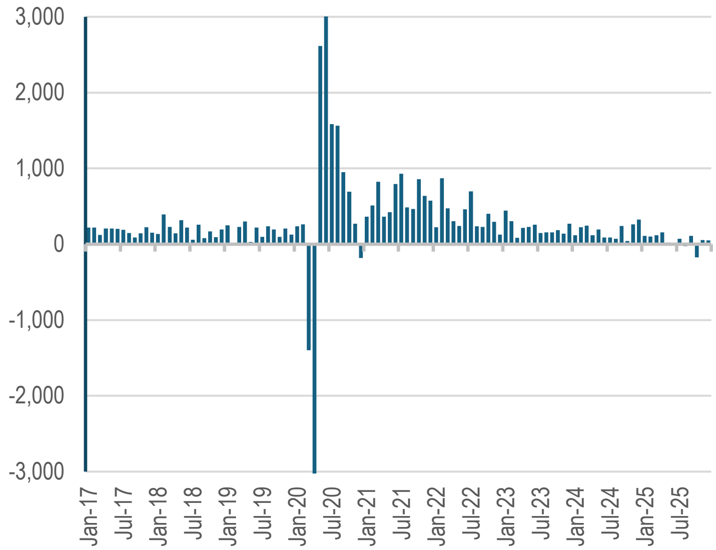
Labor Moves Back toward Trend

The best word to describe the labor market in 2025 was cautious. Layoffs were modest, but so was hiring. Labor market data for December, the first good data since September due to the effects of a federal government shutdown, showed 50,000 jobs created, far below the 220,000 needed to keep the labor market in equilibrium. Even so, there are seasonal effects in December, as many retailers typically shed jobs after the holiday buying season ends. Nevertheless, the post-pandemic trend is clear: job creation in the United States has fallen below normal and shows signs of decline.

US Job Additions

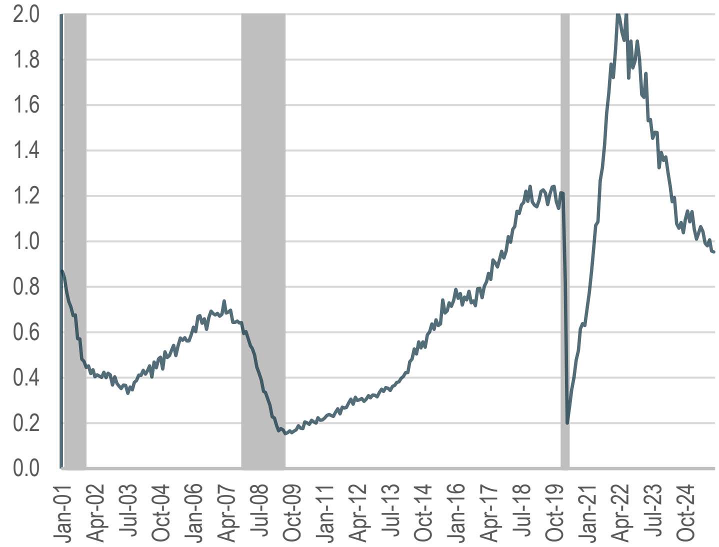
January 2017 - December 2025

(Source: Bloomberg)

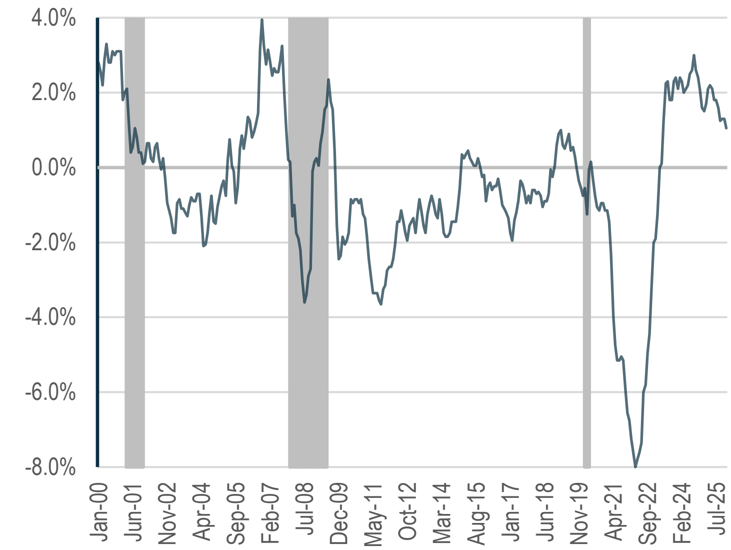


Job openings per unemployed person in the United States have moderated significantly from pandemic froth levels and now rest below pre-pandemic levels. We believe this data suggests less room to maneuver in the labor market for employees who lose their jobs.

US Job Openings per Unemployed
January 2001 - December 2025
(Source: Bloomberg)



Rate Restrictivity
January 2000 - December 2025
(Source: Bloomberg)



Interest Rates

In early 2025, we included fixed income as a significant component of conservative income-generating client portfolios. We expected that tariffs would constrain economic growth, leading to central bank intervention, lower rates, and higher bond prices. Haphazard tariff implementation and an incredible resilience of consumers, corporations, and governments to the impact of higher tariffs caught us off guard. The result was underperformance in fixed income for most of 2025, leaving investors with coupons as their primary source of return.

We believe Federal Reserve policy rates are still constraining by 1.0%, allowing rates to fall by a similar amount without stoking demand inflation. Adding fuel to potential rate softness, President Trump continues to sign a flurry of executive orders, some of which are likely to impact interest rates. Large institutional investors will no longer be permitted to purchase single-family residences, a practice that has contributed to rising real estate prices. In addition, Trump is pushing for a cap on credit card interest rates, which, if effective, will alter the profitability of card-issuing banks and temper market rates across the board.

Mortgage rates are already feeling the pinch. We believe mortgage rates are trending close to the level required to restart the real estate market, especially with new homes. Lower rates, combined with recent presidential policies and Fannie Mae's government support, are likely to facilitate first-time homebuying.

30-Year Mortgage Rates
January 2, 2025 - January 9, 2026
(Source: Bloomberg)

Geopolitics

President Trump has initiated attacks on seven countries in the first year of his second term (Syria, Iran, Nigeria, Yemen, Somalia, Iraq, and Venezuela). Since the beginning of the year, threats of attacks have targeted several allied nations. It's hard to see where this goes in the months and years ahead. It seems clear that regime change, eschewed as a foreign policy tool for decades, is not squarely on the table, and the list of targets is large and growing. Similar contemplative or active actions by other nations, like China and Russia, will be more difficult to criticize.

When adjusted for profit margins, the S&P 500 does not appear dangerously overvalued, although still higher than cyclical averages. Our concern is that margins are at their peak, and valuations are also at their peak. There is no room to maneuver if margins falter. By comparison, U.S. equity markets are significantly more expensive than those of any other investable country.

Conclusion

That's it for this *Weekender*. Have a wonderful week.

Disclosure Statement

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors cannot invest directly in an index. Past performance does not guarantee future results. Investing involves risk, including loss of principal.

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